

[REDACTED]

SOUTH AFRICA: AN UPDATE ON CONDITIONS

Support for the ruling National Party and its policy of limited reform and a tough stance toward black opposition remains high.

- Rightwing parties made strong showing in parliamentary byelections last week but National Party still won 4 of 5 races despite the black unrest and severe economic slump.
- Most whites favor government plans for powersharing system in which blacks and whites each direct affairs affecting their own communities, but whites control other broader issues--such as national security--with only limited input from blacks.
- 69% of urban whites (and 82% of urban Afrikaners) strongly support imposition of state of emergency, according to recent poll.

Unrest only likely to end as a result of more repressive measures.

- Chances of limited reforms defusing black anger greatly diminish following bloody crackdown.
- Botha probably will gradually tighten screws to minimize damage.
- Pretoria on Saturday announced that pictures of unrest in areas under state of emergency are forbidden except with police permission; in addition, only the roughly 170 officially accredited foreign journalists can now cover events in those areas.

Government stability still unquestioned.

- Security measures to date only scratch surface of capabilities.

Domestic economy still in deep recession

- caused by policies to cut imports, turn around 1984 current account deficit, reduce foreign debt, control inflation.
- austerity succeeded in creating current account surplus, but inflation is still high, probably 16% this year; wages are lagging behind.
- white/colored/Indian unemployment has doubled since July 1985 to 6% now; black unemployment is above 25%.
 - Pretoria has recently eased austerity, and probably will continue moves to stimulate recovery even though this will worsen inflation.
- growth in 1986 will be weak at best, about 3%; a 5% rate is needed just to absorb new black entrants into job market.

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International debt problems will delay domestic recovery

- The current financial crisis--South Africa owes \$13 billion to commercial banks--will delay economic recovery, but will not cripple Pretoria even if it refuses to pay back loans, something not likely.
- political uncertainties caused many foreign banks to call in loans.
- on 30 September Pretoria halted debt repayments until 31 December while negotiating debt rescheduling with bankers.
- final agreement on rescheduling almost certainly won't be reached by deadline; debt moratorium will be extended into 1986.
- first meeting between bank creditors and Pretoria's debt mediator on 23 October was inconclusive; next meeting set for 26 November.
- US commercial bank exposure to South Africa is relatively small, only \$4.7 billion.
- economy probably can grow despite curtailed foreign loans -- even as called-in loans are repaid -- but growth will be slower.

Capital flight

- before unrest began in Sept. 1984, South Africa showed slightly positive inflow of private capital for 1984.
- unrest spurred rapid outflow of \$2.2 billion of private capital between Oct. 1984 and March 1985.
- data for April-June 1985 are incomplete, and data after June are not yet available, but deteriorating security situation and July declaration of state of emergency undoubtedly triggered renewed capital outflow.
- Pretoria moved precipitously on 27 Aug. to stem capital outflow:
 - suspended trading on stock exchange and foreign exchange market for 5 days.
 - declared moratorium on debt repayments.
 - re-introduced a second, lower exchange rate for foreigners moving capital in/out of country; "financial rand" was also used after Soweto riots in 1976-77 and lifted only two years ago.
- currency losses due to the lower exchange rate for capital flows will not deter those who are serious about getting money out; there are indications some capital is still being moved out.

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Top Secret

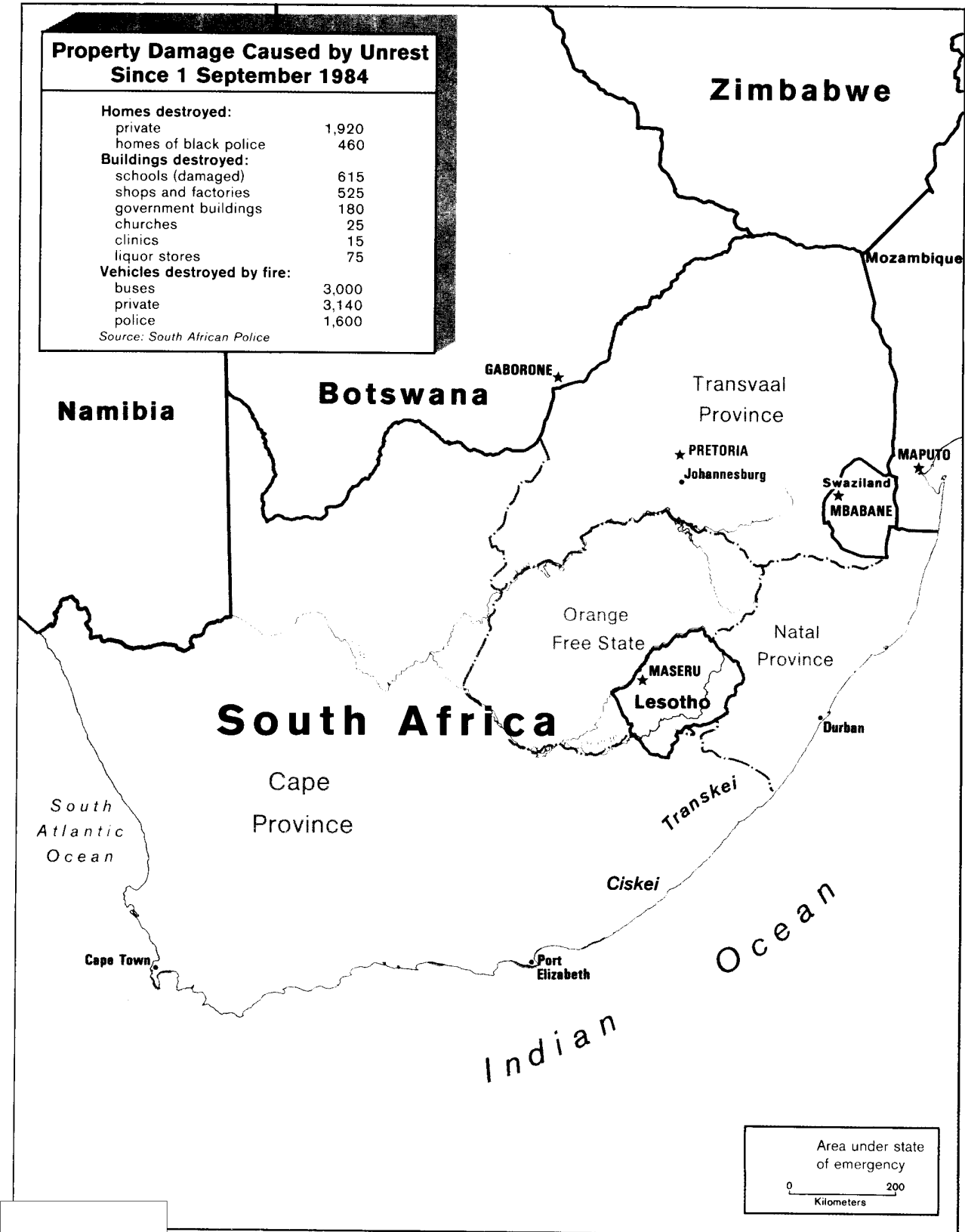
South African Unrest**Property Damage Caused by Unrest
Since 1 September 1984**

Homes destroyed:
 private 1,920
 homes of black police 460

Buildings destroyed:
 schools (damaged) 615
 shops and factories 525
 government buildings 180
 churches 25
 clinics 15
 liquor stores 75

Vehicles destroyed by fire:
 buses 3,000
 private 3,140
 police 1,600

Source: South African Police



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